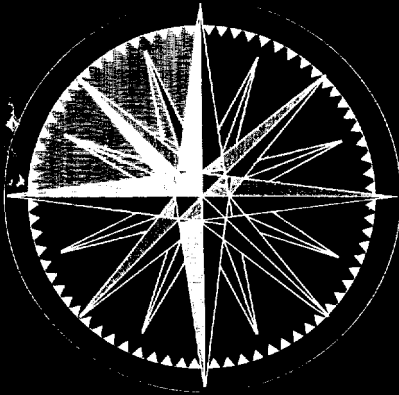


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# SPECIAL REPORT

SOVIET ECONOMIC PLAN AND BUDGET FOR 1965

CENTRAL INTELLIGENCE AGENCY  
OFFICE OF RESEARCH AND REPORTS

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**SOVIET ECONOMIC PLAN AND BUDGET FOR 1965**

The published versions of the 1965 budget and plan suggest that the orientation of the Soviet economy will continue along Khrushchevian lines, particularly in the concessions made in favor of the consumer and his standard of living. Premier Kosygin's report on the plan to last week's Supreme Soviet session promised immediate and large gains in consumer welfare. The budget speech by Finance Minister Garbuzov indicates that the regime intends to finance at least some of these promises.

Kosygin's speech was accompanied by a hand-out that apparently compared in some detail the revised 1965 plan with the preliminary version approved a year ago, when the two-year plan for 1964-65 was accepted. Although this material is unavailable, it is nevertheless clear that a number of measures were proposed that will increase either consumer incomes or the purchasing power of these incomes. Kosygin's report, however, did not show how a matching increase in the supply of goods and services is to be achieved. The possibility of further inflationary pressures therefore cannot be discounted.

Two other themes are central in Kosygin's speech: repeated references to the need to raise the quality of goods and services and repeated stress on more efficient use of resources. Both these themes have become standard with the new government.

Higher Incomes

If the increase of 7.3 percent in per capita real income for the working population is achieved during 1965, it will considerably better the poor record of recent years to which the Soviets admit. (See Table 1.) Some of the increase will result from a planned 4.5-percent rise in average earnings for all but the collective farmers and the self-employed. To-

gether with an increase of 2.8 million in the number employed in the state sector of the economy, this will mean a 6.7-billion-ruble hike in the national wage bill.

Most of the wage increases will come in the service sector, partly as a result of a speed-up in the schedule for wage reform adopted last July; other state employees can count on no more than nominal pay increases.

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TABLE 1

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USSR: PERCENTAGES OF ANNUAL GROWTH (OR DECLINE) IN  
SELECTED INDICATORS OF CONSUMER WELFARE, 1959-1965

	1959	1960	1961	1962	1963	1964	1965 Plan
Soviet Calculation of Real Income Per Capita of "Working Population" (a)	←Yearly	Average	4.6→	3	2	3.9	7.3
Average Money Earnings in the State Sector	3.0	5.0	-1.5	3.5	2.4	2.1	4.5
"Public Consumption" Funds (b)							
% of annual growth	6.9	6.5	7.8	7.6	8.2		
Total value in billion current rubles	<u>23.0</u>	<u>24.5</u>	<u>26.4</u>	<u>28.4</u>	<u>34.5 (c)</u>		<u>40 (c)</u>
Retail Trade Per Capita							
% of annual growth	6	9	2	5	3		
Total value in billion rubles at current prices	<u>71.0</u>	<u>77.8</u>	<u>80.2</u>	<u>86.3</u>	<u>90.6</u>	<u>94.9</u>	<u>102.4</u>
Consumption of Food Per Capita (d)	0.7	0.8	1.5	3.2	-0.2		
Consumption of Goods Per Capita	5.0	4.5	2.1	2.8	-0.3	-0.5(e)	
Consumption of Durable Goods Per Capita	12.6	9.9	7.5	5.8	4.0	8.4(e)	
Consumption of Services Per Capita	5.7	5.2	4.9	5.0	4.9		
Housing only	4.0	2.3	1.6	1.3	1.1	0.8	1.0
Personal services only							
% of annual growth		15.3	6.8	16.1			19
Total value in million current rubles	<u>609</u>	<u>702</u>	<u>750</u>	<u>971</u>			

- (a) Real income includes social benefits and the material cost of services provided by the state. The working population consists of total civilian employment except for self-employed persons and unpaid family workers.
- (b) Public consumption funds finance such items as pensions, stipends, leave pay, education, and medical services.
- (c) Values for 1963 and 1965 plan are based on a broader concept of public consumption funds than before. The 1965 plan figure is that existing prior to Premier Kosygin's speech to the Supreme Soviet.
- (d) Includes consumption in kind as well as retail sales of food.
- (e) Based on data for January -September only.

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If the present gap between the projected gains in money incomes and in real income is to be overcome, however, cash incomes from sources other than wages will have to rise, free services will have to increase rapidly, or the level of consumer prices will have to fall. Expenditures on pensions and grants from state and enterprise funds were not disclosed and the announced estimate of 1.4 billion rubles for the new pensions for collective farmers will provide less than a 5-percent increase in total pensions and grants received by the population.

Although an increase in sales on the collective farm market is expected, it is doubtful that increases in per capita collective farm income or in income in kind can rise enough to achieve the over-all planned increase in per capita real income.

Some gains in real income will arise as a result of the 1.3-billion-ruble price cut in the inventories of slow-moving goods. Nevertheless, there is no hint that the leadership intends to return to the policy of the early 1950s of raising real incomes by general reductions in consumer prices.

#### Plans for Consumption

Achievement of the planned increase in real income is also questionable when judged against the available evidence on the planned supply of goods and services. Retail trade in state and cooperative outlets, which

increased by 3 percent per capita in 1964, is scheduled to increase by more than twice as much in 1965.

The leadership's confidence in its ability to raise consumption levels in 1965 probably rests on the prospects for increased supplies of food. Output of the food industry is planned to increase by 10 percent. This rise is due to the good agricultural year of 1964 and will increase food consumption levels significantly for the first time since 1958-59.

Achievement in 1965 of the announced goals for consumption of soft goods would also give a boost to per capita consumption levels. However, only a few of these goals were specified by Kosygin, and there is a possibility that the others are either down or increased only slightly. Increasing output of consumer durables will also continue to raise consumption levels, but their importance in total consumption will still be small.

The plan for housing construction reasserts the previous goal for construction during 1964-65 despite the slump in 1964. Measured in terms of changes in per capita living space, the growth of housing services has been a drag on the increase in over-all consumption standards, particularly since 1960. Reaffirmation of the original two-year housing goal will necessitate the construction of about 10 million square meters of state housing

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(14 percent) over the depressed 1964 level. Here is the most dramatic evidence of the new regime's concern with consumer welfare.

Neither Kosygin nor Garbuzov referred to a planned figure for pensions, grants, and free services, which had been set at 40 billion rubles in the original draft. Individual services are scheduled to rise, partly because of wage increases for health and education workers, but neither speaker said whether the original 1965 goal is still in effect.

Investment

Investment is to increase in 1965 but it is clear that no resurgence in investment similar to that in the 1950s is planned. The investment goal originally planned for 1964-65 will not be met. The 1964 investment plan was not fulfilled and the original 1965 goal now has been slightly reduced. (See Table 2.)

Centralized state investment, which now accounts for almost 80 percent of total investment, increased nearly 7 percent in 1964. Although this was an improvement over the 5 percent achieved in 1963, it nevertheless fell considerably short of the planned 11 percent. The revised 1965 plan provides for a slightly greater increase than was originally scheduled but not enough to compensate for the shortfall in 1964. Consequently, centralized investment now is scheduled to increase about 19 percent during the two-

year period instead of 21.5 percent.

A principal goal of the leadership is to concentrate on completing construction projects in order to release some of the capital that has been tied up in unfinished construction projects, and acquire new productive capacity needed to restore momentum to the economy.

Industrial Production

The goals for industrial output, while modest in terms of achievements in the 1950s, suggest an effort to push rates of growth above current levels. Over-all industrial production is to increase 8.1 percent, less than the original 1965 target of nearly 10 percent but more than the probable 1964 achievement of about 5 percent. The data for heavy industry suggest that the 1965 targets envisaged a year ago for major commodities are still generally in effect. (See Table 3.)

The acceleration in industrial growth in 1965 will, consequently, be due in part to improving performance in the light and food industries. A planned increase of 10 percent in the output of processed foods for 1965 indicates an end to the stagnation which occurred in 1964. Barring another catastrophic year like 1963 in farm output, Soviet industry should have a greatly improved supply of raw materials from agriculture. The improved feed supplies from the 1964 harvest will be reflected in increased production of milk

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TABLE 2

USSR: PERCENTAGES OF ANNUAL GROWTH IN NEW FIXED INVESTMENT  
AND IN GROSS ADDITIONS OF NEW FIXED CAPITAL, 1959-1965

	YEARLY AVERAGE 1959-62 (Base Yr. 1958)	1963		1964		1965 Plan	
		PLAN	ACTUAL	PLAN	ACTUAL	ORIGINAL	REVISED
NEW FIXED INVESTMENT							
TOTAL	<u>8</u>	<u>10 (a)</u>	<u>3</u>	<u>9 (a)</u>	<u>5 (a)</u>	<u>9 (a)</u>	<u>(b)</u>
STATE CENTRALIZED ONLY	11	9	5	11.5	7	10	11
GROSS ADDITIONS OF NEW FIXED CAPITAL (c)							
TOTAL	<u>8</u>	<u>(b)</u>	<u>8</u>	<u>(b)</u>	<u>(b)</u>	<u>(b)</u>	<u>(b)</u>
STATE CENTRALIZED ONLY	11.5 (d)	16	11	12.5 (a)	8	12.5	12

(a) Estimated

(b) Not Available

(c) Gross additions consist of new plant and equipment in industry, transportation, communications and state agriculture; new housing in the state sector; and other "nonproductive" assets such as municipal services and schools. The primary elements of capital formation excluded are new assets in the collective farm and private housing sectors.

(d) Yearly average for 1961-62, with 1960 as base year.

TABLE 3

## SELECTED (OFFICIAL) SOVIET ECONOMIC DATA FOR 1964 AND 1965

## Percentage Increases Over the Output of the Previous Year

Data for 1965 are Soviet scheduled increases over 1964 output. Data for 1964, for the most part, are increases scheduled for 1964 and estimated from Soviet 1965 goals that were promulgated in 1963.

	1964	1965
Industrial Production	7.8	8.1
Group A (Capital Goods)	8.2	8.2
Group B (Consumer Goods)	6.5	7.7
Chemical Industry	16.6	About 15
Fertilizer	28.1	31
Plastics & Resins	28.5	28
Cellulose	15.8	20
Paper	14	12
Electric Power	9.7	12.5
Natural Gas	19.8	16
Crude Oil	7.8	7.6
Metallurgy (Steel, 4.7)	X	6
Machine Building & Metal Working	9	9
Refrigerators	12	76
Housing	0	9
Freight Turnover	7.3	7.1

X - Not Available.

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and meat products in 1965; these products are counted under the output of industry.

The chemical industry appears to have retained most of its priority, at least for the immediate future. The slight reduction in some goals probably reflects difficulties in building new facilities and in bringing output from new plants up to rated capacities. The over-all goal of a 15-percent increase in chemical output is only slightly below the 17-percent annual average increase originally anticipated for 1964-65. The industry will at least come close to fulfilling the target of a 36-percent increase in output for the two years.

The 1965 goals for fuels, electric power, and ferrous metallurgy remain about as they had been set by Khrushchev. A continued attempt on the part of the new leadership to offset partially the hard currency deficit through an expansion of commodity exports may underlie Kosygin's emphasis on the cellulose and paper industry. Growth rates of 20 and 12 percent, respectively, appear to follow a Khrushchev injunction. The relatively modest goal of a 9-percent increase in the manufacture of machinery and equipment suggests continuing failure to solve a variety of problems --poor design, difficulties in model change-over, difficulties in deciding how to equip new plants, and the like.

### Agriculture

With few exceptions, the 1965 plan and budget suggest that the new regime's approach to the chronic problem of increasing farm output will be much like that of the past several years. There are clear indications that the regime essentially agrees with Khrushchev on the necessity of stepping up allocations of resources to agriculture, especially chemical products.

Investment plans in agriculture were not met in 1964, but the Khrushchev regime was able to increase significantly the deliveries of fertilizers and other agricultural chemicals. The use of fertilizer went up by a third in 1964 and the same rate of increase is planned in 1965. (See Table 4.) Deliveries of farm machinery to agriculture in 1964 and those planned for 1965 do not show a significant increase over 1963. Thus, it remains unclear--as it did a year ago--how the government expects to support agricultural growth programs that require a rapid rise in machinery stocks.

Last month's reversal of the policy of restricting the numbers and size of private holdings, somewhat reinforced by Kosygin's 9 December statement that taxes on livestock holdings will be eliminated, has been the only real change in agricultural policies. There are, however, suggestions of other changes to come. Khrushchev's proposal to

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TABLE 4

USSR: PERCENTAGES OF ANNUAL GROWTH(OR DECLINE)IN SELECTED AGRICULTURAL INPUTS, 1959-1965

	Yearly Avg 1959-62 (Base Yr. 1958)	1963	1964 Plan	Actual	1965 Plan Original	Revised
<b>New Fixed Investment</b>						
Total	<u>8</u>	<u>14</u>	<u>10</u>	(a)	<u>12</u> (b) (c)	(a)
State agriculture only	10.2	24.9	28.6	14.3	13.0 (c)	18
Irrigation and reclamation only						
% of annual growth	17	20	17.5	(a)	12 (c)	38 (c)
Total value in million rubles		<u>800</u>	<u>940</u>	(a)	<u>1,160</u>	<u>1,300</u>
<b>Deliveries of Machinery</b>						
Agricultural machinery (excluding tractors)	6	17	2	3	(a)	6 (b)
Tractors only	7	16	9	-8	9 (b) (c)	12 (b)
<b>Deliveries of Fertilizer</b>						
% of annual growth	6.5	17	38	32	36	30
Total deliveries in million metric tons		<u>16</u>	<u>22</u>	<u>21</u>	<u>30</u>	<u>27</u>

(a) Not available

(b) Estimated

(c) As compared with 1964 plan

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create a modern poultry industry on the basis of the US model was ignored, and his more questionable proposals on land use, crop rotation practices, and corn seem on the way out. Kosygin also suggested that the regime may be placing greater emphasis on draining swampland than did Khrushchev.

Organization and Management  
of the Economy

Kosygin announced an intent to modify the operation of the economy drastically, but only after careful preparation. The new regime had already directed that an experimental system, in which contracts between the retail outlet and the manufacturer replace central planning to a large extent, would be extended to about one third of the USSR's shoe and clothing factories. Now, Kosygin has at least implied that this radical modification of Soviet management may be extended well beyond consumer-oriented industries. This change cannot bring about any immediate gain in economic efficiency in the near future; much time will be required for planning, and its effectiveness over the long run remains to be seen.

Kosygin also made it clear for the first time that the

leadership will consider proposals by liberal economists in determining measures for improving economic management. Nevertheless, the timing and the scope of the new management and planning directives remain unspecified and will depend in large part on the degree of agreement which prevails within the new regime.

1965 Budget

Available budget data are still sparse, but there has been a slight reduction from the high goals set in 1963 for 1965. Over half the planned increase in expenditures is allocated to the social-cultural category that finances such items as science, education, health, and social welfare. These appropriations, scheduled to be almost 5 billion rubles above the sum planned for the current year, reflect in significant part the financing of the rise in real income called for in the plan. Some of the increase in other planned expenditures is accounted for by wage increases approved earlier this year--a part of the increase in cash income provided by the plan. The new regime has accelerated the schedule for implementing these wage increases. (See Table 5.)

Under the new budget, defense expenditures are reduced

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TABLE 5

USSR: STATE BUDGET PLANNED FOR 1963, 1964, and 1965

EXPENDITURES	1963	1964	1965	
			Original	Revised
Financing the National Economy	34.54	38.7	41.2	42.3
Social-Cultural Measures	31.00	32.8	34.5	37.5
Defense	13.89	13.3	(a)	12.8
Administration	1.1	1.1	1.1	1.1
Loan Service	0.5	0.5 (b)	(a)	
Reserve Funds of the Council of Ministers	2.6	2.3	3.3	5.8
Budgetary Expenditure Residual	2.6	2.6 (b)	(a)	
<b>TOTAL EXPENDITURES</b>	<b>86.2</b>	<b>91.4</b>	<b>100.4</b>	<b>99.5</b>
<b>REVENUES</b>				
State Sector	79.8	84.7	93.6	91.8
Turnover Tax	33.9	35.2	37.6	39.2
Deductions From Profits	26.1	29.5	34.8	31.6
Other Income	19.8	20.0	21.2	21.0
Private Sector	7.9	7.2	7.6	7.9
<b>TOTAL REVENUES</b>	<b>87.7</b>	<b>91.9</b>	<b>101.2</b>	<b>99.7</b>
(a) Not Available				
(b) Estimated				

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by 500 million rubles, or 4 percent below the 1964 plan. As actual 1964 expenditures of the explicit defense category were not given, the scheduled decline in defense spending mentioned by Kosygin may not be real. The explicit defense entry, more-

over, does not cover all military expenditures. It is believed that spending on research and development, security forces, space, and armaments expenses are partially or wholly financed from other categories of the budget.

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